

TOWN OF AMHERST

FY 09 MID-YEAR 9C CUTS & PROPOSED FY 10 STATE AID CUTS

30-Jan-2009

John Musante, Assistant Town Manager/Finance Director

	A		B	C	D
	FY 09	FY 09	FY 10	FY 10	FY 10
	Budget	Lottery	Lottery	New Revenues	Max Cut
		Add'l Assist	Add'l Assist	+1% State	= 10%
				Meals & Lodging	Chap 70
				Taxes	Lottery
					Add'l Assist
State Aid - Cherry Sheet	8,513,025		(2,866,106)		
Lottery	1,303,431	(956,576)			
General Fund Subsidy to Lottery	222,910	(21,722)			
Additional Assistance			94,806		
Aid to Mitigate Reductions to Chap 70, Lottery, AA to 10% Max Cut	10,039,366	(978,298)	(2,771,300)		
SUBTOTAL Unrestricted Municipal Aid					
Revenues from Meals Tax Increase (+1% to State Tax)	0	0	0	955,369	
Revenues from Rooms Tax Increase (+1% State Tax)	0	0	0	185,324	
Chapter 70	6,266,707	0	0		
TOTAL SECTION 3 STATE AID WITH AID TO MITIGATE REDUCTIONS	16,306,073	(978,298)	(2,771,300)	1,140,693	(1,630,607)
% of FY 09 Adopted Budget Plan		-1.6%	-4.5%		-2.6%
% of FY 09 Total State Aid		-5.7%	-16.2%		-9.5%
% of "Section 3" Chapter 70, Lottery, and Add'l Assistance		-6.5%	-28.5%		-10.0%
FY 09 Adopted Budget Plan	<u>81,609,565</u>				

- A) FY 09: The Governor is enacting a \$128M cut to Lottery Aid and Additional Assistance. The cut = 9.74% of the FY 09 estimate from Cherry Sheet.
- B) FY 10: The Governor is proposing a \$375M cut to Lottery Aid and Additional Assistance. The cut = 28% of the FY 09 pre-9C cut amount.
- C) The Governor's proposed increase of 1% to state meals and lodging taxes is estimated to generate \$150M, which would be distributed to cities and towns in proportion to the amount of total Lottery Aid and Additional Assistance received in FY 09. This does not include any revenue from a companion proposal to allow a 1% local option meals tax and increase the existing local lodging tax by 1% (revenue estimated at \$0.46M).
- D) The Governor is proposing that the net FY 10 state aid cut, after adding new state meals/lodging tax revenues, be limited to 10% of the total FY 09 pre-9C cut amount of Chapter 70, Lottery, and Additional Assistance.

OPTIONS TO DEAL WITH FY 09 MID-YEAR STATE AID CUTS

- Replace with unanticipated revenues received: MSBA grant reimbursement for Wildwood Roof \$ 550,311
- Reduce expenses \$ 500,000 - 750,000
 - Health Claims Trust Fund premium holiday
 - Savings from vacant positions
 - Identify mid-year budget efficiencies (while also monitoring expenses > budgeted)
 - Defer certain capital projects
- Use reserves (current balance = \$4.4 million)

Governor's FY10 budget plan calls for \$375M local aid cut



January 28, 2009

Facing a budget gap of more than \$3 billion for next year due to the severe national recession, Gov. Patrick today filed a fiscal 2010 state spending plan that includes a \$375 million cut in municipal aid (Lottery and Additional Assistance) below the original fiscal 2009 funding levels.

The budget bill, known as House 1, would combine Lottery and Additional Assistance into a new category called Unrestricted General Government Aid, and each community would receive 28.5 percent less than their original fiscal 2009 amount for these accounts.

In an effort to offset these cuts, the governor is proposing to raise additional revenue through meals and lodging taxes and the closure of a telecommunications property tax loophole.

The governor's budget proposal would level-fund Chapter 70 aid for each city and town (\$3.95 billion statewide), maintain funding for the payment-in-lieu-of-taxes (PILOT) program at \$30.3 million, and fully fund the veteran's benefits and school lunch programs.

Aside from the primary local aid accounts, House 1 would cut the police career incentive account by \$8 million (16 percent, underfunding the account by \$14 million), reduce funding for regional school transportation by \$8 million (13 percent), and reduce library aid accounts by \$4 million (14 percent).

- [Link to governor's budget Web site](#)
- [Link to Division of Local Services Web site for fiscal 2010 Cherry Sheet numbers, by community](#)
- [Download administration's estimates, by community, of revenue that could be derived from 1 percent local-option meals and lodging taxes as well as partial closure of the telecommunications property tax loophole \(96K Excel file\)](#)
- [See also: Governor releases details of mid-year local aid cuts](#)

Charter school funding

The governor's budget recommendation includes several changes to charter school law that would allow more charter schools in districts that are at or near the current school aid withholding cap of 9 percent of required "net school spending," so long as the charter school would serve "at risk" students. The new cap would be 12 percent.

The governor also proposed to create a new state budget account to fund facilities payments to charter schools and incremental tuition costs due to new students and normal growth in the per-student tuition charge. For fiscal 2010, this would reduce the charter school tuition assessment paid by public school districts but would also reduce the reimbursement amount. Local officials are advised to carefully check both of these Cherry Sheet items to calculate the "net" amount, as many

communities may see an increase in their net loss to charter schools next year under House 1.

The governor would also create a new reporting requirement for charter schools focused on year-end surplus amounts. The MMA is pushing for an overall reform in charter school funding, as well as a safety net provision to prevent losses to charter schools from growing above this year's level.

New taxes

Companion legislation filed along with the governor's budget proposes to use revenue raised from a 1 percent increase in the state meals tax (\$125 million) and a 1 percent increase in the state hotel-motel room occupancy tax (\$24 million) to offset a portion of the cuts to municipal aid. The plan calls for the \$150 million to be distributed to all cities and towns in order to reduce the overall municipal aid cut to about \$220 million.

Each community would receive a share of the \$150 million based on their share of the original levels of fiscal 2009 municipal aid (Lottery and Additional Assistance). After receiving these funds, the state would use a special reserve fund of \$6 million to make sure no community receives a fiscal 2010 local aid cut that exceeds 10 percent of their original combined Lottery, Additional Assistance and Chapter 70 aid total. This mitigation funding is contingent on the Legislature enacting the taxes proposed by the governor.

The governor also filed legislation to give cities and towns the authority to levy, at local option; a 1 percent meals tax (worth an estimated \$125 million statewide) and 1 percent increase in the hotel-motel tax (worth an estimated \$24 million statewide). The bill would also close telecommunications property tax loopholes (both the \$26 million loophole for poles and wires and a loophole on switching equipment that is worth between \$25 million and \$50 million).

Under the plan, 100 percent of the local-option meals and hotel-motel tax revenue would remain in the community.

Municipal health insurance

Instead of supporting the MMA's legislation to give cities and towns the same authority the state has to design health insurance plans for employees, the administration has filed a proposal that falls short of meaningful reform and, in many cases, may make it even more difficult to achieve savings.

The MMA's proposal would allow cities and towns to update their insurance plans outside of collective bargaining. This approach would save communities more money, more quickly and more effectively than any other alternative, including joining the state's Group Insurance Commission pool, which doesn't work for a large number of communities.

The governor's proposal would require cities and towns to receive union approval for any insurance changes and would penalize communities by cutting local aid for those who are unable to convince unions to make a change.

The MMA argues that the proposed rules could make it even harder to secure health insurance

savings.

Municipal Partnership Act II

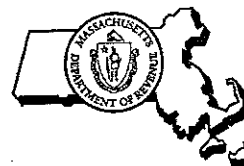
The governor's "Municipal Partnership Act II" contains a number of provisions supported by the MMA, including:

- Procurement reform by changing the thresholds
- Flexibility in pension funding, especially during the next several years due to investment losses and the budget crisis
- Removing collective bargaining obstacles to regionalization efforts
- Eliminating costly contract advertising requirements

The MMA is analyzing the legislation now, and will share the details as soon as they become available.

- [Link to details of Emergency Recovery Bill](#)
- [Link to details of Municipal Partnership Act II](#)

Written by MMA Executive Director Geoff Beckwith



Bulletin

2009-04B

FISCAL YEAR 2009 LOCAL AID CUTS

TO: Mayors, Selectmen, City/Town Managers, Executive Secretaries, Finance Directors, City/Town Councils, Assessors, Collectors, Treasurers, Accountants, Auditors, City Solicitors and Town Counsels

FROM: Gerard D. Perry, Director of Accounts

A handwritten signature in cursive script, reading "Gerard D. Perry", is positioned below the "FROM:" line.

DATE: January 2009

SUBJECT: Addressing Budgetary Impact of FY09 Local Aid Reductions

This *Bulletin* discusses the budgetary and financial implications of the reductions in Fiscal Year 2009 local aid made by the Governor in accordance with G.L. c. 29, § 9C and the options available to address them.

A. LOCAL AID REDUCTION

The Municipal Data Management and Technical Assistance Bureau has posted the local aid reduction for each city and town on our website at:
<http://www.mass.gov/Ador/docs/dls/mdmstuf/StateAid/fy099creductions.xls>.

B. IMPACT ON MUNICIPAL BUDGETS AND BALANCE SHEETS

Reductions in budgeted local aid, like shortfalls in any municipal revenue source except the property tax, will have a negative effect on FY09 operations, unless action is taken as soon as possible during this fiscal year to address them. Otherwise, the resulting general fund revenue deficit will have to be raised in FY10. The revenue shortfall can be offset in part by actual receipts from other sources that exceed the amounts budgeted, as well as regular appropriation turn-backs. It is not anticipated that ordinary favorable operations alone would be sufficient to absorb the impact of the local aid cuts in many communities.

Cities and towns have the options discussed below to address the local aid reduction and bring their budgets into balance. Any transactions will be reflected in the fund balance on June 30, 2009, the audited financial statements as of that date and the free cash certified as of July 1, 2009 and available for appropriation during FY10.

Cities and towns that have not yet set their FY09 actual or pro forma tax rate are expected to submit tax rate recapitulations that reflect the reduced Cherry Sheet aid and to bring their budgets into balance before doing so.

1. Reduce FY09 Operating Appropriations

Cities and towns may cut departmental operating budgets and other annual appropriations made from the FY09 levy. Budget cuts may be made in any department, provided any statutory spending obligations are met. In making proposed cuts that will result in reductions in force, communities must recognize and provide for any associated expenses, such as payment of accrued vacation and other earned benefits, as current year liabilities.

Local officials should consult with their town counsel or city solicitor regarding any special charter provisions or bylaws that may apply. In general, however, in towns, any proposed reductions in annual budget or special purpose appropriations must be presented to and voted by town meeting. Appropriation reductions or any other actions regarding FY09 that require town meeting approval should be taken at a special meeting held before or within the annual so that they can take effect immediately. In cities, spending cuts are made by the mayor and council in accordance with the charter and applicable statutes.

Reductions in appropriations from the levy will be treated as unspent appropriations (turn-backs) and will reduce any revenue deficit that would otherwise have to be raised in FY10.

2. Reduce Special Purpose Appropriations

Cities and towns may reduce or rescind current or prior year general fund appropriations made for special purposes or capital projects that have not yet commenced. This option may be used only to the extent liabilities have not been incurred against the appropriation and third party rights are not affected by the community's action, *i.e.*, no contract has been executed or sufficiency of appropriation certified by the accounting officer for the project.

These reductions are also treated as appropriation turn-backs and reduce any revenue shortfall that would otherwise occur at year-end.

3. Use Reserves as Offsetting Revenue Source

Cities and towns may use reserves to offset the revenue shortfall and fund some or all budgeted spending that would otherwise have to be cut, *i.e.*, use free cash, general stabilization fund or other unrestricted available funds to cover FY09 operations. We recommend the following language for the proposed city council/town meeting vote:

VOTED: That the city/town transfer \$_____ from _____
to be used as an other financing source in the general fund for FY09.

The Director of Accounts will treat this vote as a transfer that will reduce any revenue shortfall that would otherwise occur at year-end.

4. Increase Local Fees and Charges

Cities and towns may review current schedules for fees and charges to determine whether they reflect the full cost of service delivery and if not, revise them accordingly. Communities considering increasing existing fees, or imposing new ones, should consult with municipal counsel to determine their authority to impose or increase the particular fee in question and the proper procedure for doing so. This may vary from community to community depending on the type of fee and local charter or special act provisions.

Additional receipts from local fees and charges will be reflected at the close of the fiscal year in the general or enterprise fund balance and reduce any fund balance deficit that would otherwise have to be raised in FY10. Municipalities may also wish to consider reviewing their enterprise funds to determine whether any appropriate indirect costs for general fund expenditures can be captured.

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